

# Audit and Finance Committee Meeting Transcript – 04/15/2020

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[9:31:35 AM]

>> Alter: Why don't we go ahead and get started. I am Alison alter, councilmember for district 10 and chair of the audit committee and we are going to be convening this morning virtually. And our first item is to approve the minutes of the audit and finance committee meeting of February 26th. Do I have a motion to approve the minutes? Councilmember Flannigan moves, seconded by councilmember pool. All those if favor raise your hand? Councilmember tovo, we can't see you. Can you put your -- >> Tovo: I'm working on that. >> Alter: Great, thank you. So our next item of business is item 2, which is to hear the fiscal year 2019 comprehensive annual financial report by deloitte and touche, the city's external auditor. How this is going to work is we're going to hear from Diana Thomas, the city of Austin controller, who is going to provide an

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introduction, and then deloitte will take it from there. They're both going to be joining us by phone and then the slides should be appearing on our screen. Just as a reminder, this is the comprehensive annual financial report. It's part of normal procedure that is required to be presented to the audit and finance committee annually. It's part of our financial policies. It often comes up with the annual single audit which covers our grant activity. That audit is going to be on a slightly different schedule because it was delayed a little bit with the covid-19 response because it is the departments that are being audited as a - on a regular basis through that audit that are most engaged with the covid response so we are expecting that audit in may. So Ms. Thomas, if you would like to start us off? >> Sure. Do we have the presentation slides available yet?

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While we're bringing up the presentation, good morning, mayor and councilmembers. I'm Diana Thomas, city controller, and I'm here with Reese Cameron from deloitte and touche, the city's external auditor, to present the results of the 2019 annual financial report or capper audit. You will receive bound copies of the report discussed today as soon as we can get them printed. Next slide should be the one with the capper image on the left-hand side. Our capper was issued on March 6. This was in advance of the six-month requirement to issue by March 31st. So we were closed that we were able to issue early. It is available online at Austin finance online and the web address is listed below the picture of the cover. This year we chose some of Austin's famous murals for our covers and we're very proud of the document that we've put together. The controller's office is responsible for the

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preparation of the city's capper and our office works closely with deloitte to obtain an indicate of this report. Applies advance to slide 3, which is the financial requirement. On this slide we cover the requirements for an. Annual audit and the city is in compliance with all of these requirements. We have our independent auditor, deloitte and touche, llp, an independent certified public accounting firm and this is the second year of a five-year contract for audit services with deloitte. The report was issued within six months and the car was published on March 6 of this year. We must present within 60 days of issuance to the audit and finance commitment and deloitte is here today on April 15th, which is 40 days after the issuance of the car. Next slide, please. I'd like to thank those that are listed on this slide for

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their contributions to the completion of this key financial report, including the mayor and the council, city management and city financial staff for all of their work in getting this report completed. I'd like to now turn -- next slide, please. I'd like to now turn the presentation over to deloitte and then we will open up for questions at the end of the presentation. And if you could advance to the next slide, it's a white page with images of pencils in a circle. >> Thank you, Diana. Good morning, mayor and councilmembers. And thank you for the opportunity to present the results of the audit for fiscal year 2019. My name is (saying name) And I'm a managing director at deloitte and touche and with me on the call are Blake Rogers, a partner in our north Texas office. He's the partner responsible

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for the federal and state grant audits as Diana mentioned early E and Jane shin. She is the field manager on the engagement that was responsible for the oversight of the conduct of the audit. First I want to take the opportunity to thank the finance and audit committee to serve as your independent auditor for the city. We have prepared our written comments and the slides that you should be seeing now would be the one with the deloitte letterhead. Basically to walk us through the results of the audit for fiscal year 2019. Completed the audit for the financial statements or the audit [indiscernible] Financial statements for the city for the fiscal year ended September 30th, 2019 and issued out auditor's report that is included in the comprehensive annual financial report that Diana mentioned. As user independent auditor we have maintained our Independence from the city and its management and

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report directly to the council through the finance and audit committee. Next slide, please. Our audit of the financial statement was performed in accordance with generally accepted auditing standards and government auditing standards and our opinion included in the auditor's report is an unmodified opinion. Basically it says that the financial statements as prepared by management do report the financial position and the operations and the cash flow for the fiscal year. Adopt to note that our auditor's opinion refers to other auditors. Basically the city has three discretely financial statements and are audited by other auditors and our opinion relies on those auditor's opinions which were clean opinions, which means they had unmodified opinions. I want to also note that the

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comprehensive annual financial report does include certain required supplementary information. This basically presents the management, discussion and analysis that is prepared in narrative format at the beginning of the financial statement. And other required schedules to be presented behind the footnotes. While we read that information and basically compare it to the underlying financial information that was prepared for and from the financial statements, that information is not considered audited. In addition to the required supplementary information, there's other supplementary information included also in the comprehensive annual financial report. That basically presents a combining schedules for the individual funds. That information was audited in relation to the financial statements. Our responsibility as auditors was described to the -- basically the council

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and audit committee in our engagement letter that was dated July 1st, 2018. And I'll -- I'm sorry, in our contract that's dated July 1st, 2018 and an engagement letter that was issued subsequently on September 27, 2019. In the engagement letter we basically identify our responsibilities for the

management and the finance committee responsibilities. We have also summarized those responsibilities in appendix a. Next slide, please. The financial statements do disclose the significant accounting policies in footnote one. I just wanted you to be aware that there were no significant changes to those accounting policies, meaning the financial statements were prepared consistent with the prior year financial statements. Also in preparing the financial statements,

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management makes significant accounting estimates. The significant accounting estimates for the city are listed on the slide in front of you. Those include the liabilities for post employment benefits, pension liabilities, other asset retirement obligations related to environmental liabilities and certain deferred amounts related to regulatory operations. We have assessed those estimates and we have included a summary of the procedures that we have performed and our conclusions in appendix B. Next slide, please. We are required as a result of our audit to communicate with the finance and audit committee if we identify any adjustments to the financial statements. So you see in front of you that the adjustments are basically categorized into two categories. One would be basically errors or uncorrected misstatements and those will be adjustments that we noted

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during the audit, discussed with management and management agreement with them and they are not significant to the financial statements and management did not record them in the financial statements so they were considered unrecorded financial statements. We are required to report those to you and these are included in appendix C to this presentation. This misstatements were determined not to be material to the financial statement. In addition, there were two other adjustment that were noted during the audit that are also listed on the slide. These adjustments, because of their significance in dollars, when we brought them to the attention of management, management decided to report them in the financial statements, so the financial statements that are prepared and that you will have access to do reflect those two adjustments and just briefly, the first adjustment relates to the accounting and recording

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basically of the termination of an interest rate swap agreement. In conjunction with [indiscernible] Refunding, the city terminated a swap agreement and when the management recorded the transaction the determination was recorded as a loss on refunding while the accounting literatures requires you to report such a loss on to be amortized out over the life of the new debt. The second adjustment was also an accounting entry basically where the city had entered into an agreement and as a result of that

agreement it's basically made a deposit into an escrow account for a construction contract. The deposit itself was reported as a capital out lay, which is an expenditure, rather than another asset. And B recognizes the capital out lay when you close on the agreement. Again, management agrees with both adjustments and

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these adjustments are reflected in the financial statement. Next slide, please. A couple of other items to bring to your attention, as a result of the audit we do require management to sign a representation letter for their responsibility of the preparation of the financial statements. A copy of that representation letter is included as appendix D to those slides. We are not aware that management had any other discussions with other accounts to any accounting matters. That's -- we are required by auditing standards to communicate that fact to you. Also I wanted to bring to your attention that as part of our contract we have engaged a minority small business subcontractor, Montemayor and associates. That firm basically provided staff to assist in the conduct of this audit.

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As part of our audit, we do obtain an understanding of internal controls and we test the design and implementation of internal controls, whether it's I.T. Related or controls related to your accounting processes. As a result of our understanding and testing of internal controls, or the design and implementation of those internal controls, we identified one internal control matter that we wanted to bring to your attention. It actually relates to adjustments that I mentioned earlier. The matter is discussed in detail in the attachment and also in our letter of internal controls. It is considered a significant deficiency, basically a matter that's required to be brought to your attention, however it's not considered -- we did not consider that matter to be a material weakness. Again, the matter relates to the recording of the two unique transactions that we

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mentioned earlier that we brought to management. We basically recommended that management strengthen the process of identifying those unique transactions. Basically looking into the accounting literature and consulting as necessary and documenting that process and their conclusion to help basically identify those issues timely and properly come to the right conclusion and recording those transactions appropriately in the financial statement. I wanted also to bring to your attention that in addition to the financial audit, we are in the process of performing the compliance audit, a single audit that was mentioned earlier. And we are in the middle of that audit. We will be bringing the results later

in may. Also the [indiscernible] Audit, this is for the passenger charges from the airport, we're required to

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perform a compliance audit and that audit is also in progress. And in addition to the compliance audit, we have completed the agreed upon procedures relative to the Texas commission on environmental quality and that report has been submitted to management. >> Just a quick question here. Are we still on the right page? It's still showing corrected and uncorrected misstatements? >> Oh, I apologize. We should have been on page six of the presentation, other items. >> Very good, thanks. >> And just to be clear -- this is Diana. Just to be clear, that's not six of the PDF files, that's six of deloitte's presentation.

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>> This was the last slide of the prepared presentation. The next slide is basically a list of the appendices that are attached that I mentioned in my presentation, and I wanted to close my prepared part of the presentation here and turn it to Diana and to yourself if you have any questions. >> Thank you, for your team's work on this audit and for being here to make this presentation today. Members of the committee, I wanted to let you know that management concurred with deloitte's recommendation on the non-unique transactions and we're putting a process into place to document the analysis and consultations that we utilize in determining the appropriate accounting treatment for future unique non-routine transactions. At this time Reem and I are available for any questions that you may have. >> Alter: Thank you, Ms. Thomas, our comptroller, and also from deloitte. I'm really pleased that this is a clean, unmodified

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opinion that we've received, and once again our budget and finance team have lived up to the best practices in the field and I want to thank them for all their work. Their efforts in keeping us outrock on all of our financial policies is one of the reasons that we are in a strong financial position now and in the past. I also want to point out that this report was completed before the deadline, which in the midst of the covid pandemic is an impressive feat. Thank you. Now I want to open the floor to questions from my colleagues colleagues. And I guess if you want to raise your hand I will know to call on you when I see you all. Does anyone have any questions? Then I will ask one question that I had. Obviously there are significant changes to our fiscal situation and perhaps how our budget is constructed in light of our

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efforts to address the pandemic. Will the car in any way be impacted for next year? Is that simply a matter of the accounting procedures since some of the transactions may look different and some of the things you would be looking at or should we be expecting something different next year as a consequence of perhaps a lot of changes? >> That's a really good question. As an industry we have been in continuous communication with the accounting standards board, with the [indiscernible] Which oversees -- we have an expert panel that oversees the governmental accounting and auditing for cpa's. At this point I would say at an accounting standpoint there would not be changing. In fact, the governmental accounting standards board has recognized that all the pressures that management has, you know, in handling

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the pandemic and have delayed the implementation of certain accounting standards that would have been effective for next fiscal year. So far to relieve some of the pressure of management they have delayed the implementation of those accounting standards. There are a number of accounting issues and compliance issues that management will have to deal with and that we are basically trying to consult and will be in discussion with management on as a result of the pandemic. And this situation. This presentation should not be impacted, however we have to take into consideration whether certain accounts, you know, have been implanted as a result of -- I would say one example could be what's going on in the financial markets and the impact on your funding of your pension liabilities and how your estimating those liabilities. And in other situations, some governments are looking into their capital assets

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and whether such assets are impaired. Management was transparent. The day we released our report was the same day I think a national emergency was declared in the city acknowledged they have included a footnote disclosure in the notes to the financial statements to basically be transparent that this is happening and that the financial statements were prepared in accordance with the standards at that point in time. >> Alter: Great, thank you. I think it's important that we have as a practice been very transparent about the practices and that we have year after year produced audits that represent that we have these internal controls as we shift to adapt to the new situation, having those habits I think is going to be really helpful in making sure that everything moves forward smoothly. So thank you for that. Does anyone else have any

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questions? I do not believe we have to take any action. So thank you to the controller's office and to deloitte for your work on this. And we will see you in may or in June for the single audit, which is the audit of the grants that we have as a city. Thank you very much. >> Thank you. >> Thank you. >> Alter: So we will now move to item 3, which are bylaws changes for the joint inclusion committee and historic landmark commission. I believe we're going to hear from the clerk's office. >> Yes, hi. Good morning, this is Stephanie hall with the clerk's office and I'm here to present to you one bylaw amendment that is from the historic landmark commission. And this amendment was made to keep up with state law and for update of the grant status. They are editing article 8-a-4, and the amendments are to accurately reflect the committee's role and to clarify the application

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process. Staff does concur with this amendment. >> Alter: Thank you. And just for the report are we also postponing the joint inclusion committee? >> Yes, chair, that is correct. We are working with law and there needs to be some updates on that. We'll bring them back when they're ready. >> Alter: So do we have any questions? If not I will entertain a motion to pass the historic landmark commission two bylaw changes and to postpone the joint inclusion committee changes to whenever the clerk is ready. Councilmember pool makes that motion. Seconded by councilmember tovo. All those in favor raise your hands? It's unanimous on the dais. Thank you. So our last item is things we want to discuss in the future. And I wanted to give a little bit of an overview for the committee so this is going to be a short committee meeting today. We needed for necessity to

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bump several items that either needed to get updated based on covid changes or we're not quite ready with some audits that are coming back with respect to police accountability as well as the cultural centers that we were anticipating for today. And so we have a lot of things that may be on our future agenda in may. We may need to do a special called meeting because we want to hear about the pension update and that may require a more focused kind of discussion than we can offer if we have a lot of other audits. And we may also need to do some interviews for the municipal civil service. We've not been able to do a lot of those now. I'm just going to flag for you what I have down and then let Ms. Stokes chime in on things that she wants to fill in there. So we have pensions update that we're waiting for. The single audit which I mentioned before, which goes

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along with the car, the municipal service interviews, and then we are expecting back the community policing audit and the cultural centers audit, which is essentially six audits in one, so it will take a little

while to present. And there may be some more boards and commissions bylaw updates as well as we may need to look at the audit plan in light of shift in ability to do certain audits given covid. So we may need a special called meeting. We'll let you know about that. And Ms. Stokes, did you want to add anything? >> You did a really great job of covering that. Hopefully y'all can hear me okay here. But I think that really captured everything. We have a few audits coming. We have some items that had to be postponed for various reasons, but we do have a pretty packed may agenda, especially if we're ready to do some municipal civil service items.

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So just thinking about that, right now we don't have a June or a July schedule, so it does kind of make us need to think about these things for may. The other thing that you mentioned, and that I really wanted to flag to you guys is that covid changes things. It changes what we're auditing, it changes our availability of data. We as auditors don't want to get in the way of any first responders or people trying to do work on the front lines. We want to be really, really conscious of that. So I think we're going to be proposing some changes to our audit plan. Another factor, I think I mentioned this to y'all, not too long ago, but we've had some turnover in our office and with the hiring freeze I think we'll be -- that will require us to remove some of the audits that we hope to get done at the end of the fiscal year. So we're going to be coming back. I'm working both with staff in my office and then I'm talking to auditors around the country to make sure we understand what are some good things we could be looking at right now, how

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can we add value without getting in the way. I think that's really the focus for us in the next 60 days or however long as the city kind of works at home and tries to respond to more immediate needs than data that the auditor is asking for. >> Thank you. And I will confer on some of the other timing things as well as with Ms. Hart or in terms of the pension stuff, and get back to you about a special called meeting. I think some of it depends on the timing for the pension. That one seems different than the -- than the community policing and the cultural centers audit and probably should have its own kind of dedicated meeting. We may have colleagues who want to come for that discussion as well. Maybe we can do the pensions

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and the single audit together at some point mid may or something like that. Does anyone else have anything you want to highlight for future items? Okay. If not, then I'm going to adjourn this meeting at 10:00 A.M. Thank you all for being here this morning. It's lovely to see all your faces. Take care. >> Thank you.